

# City of South Pasadena

## Agenda Report

*Richard D. Schneider, M.D., Mayor*  
*Marina Khubesrian, M.D., Mayor Pro Tem*  
*Michael A. Cacciotti, Councilmember*  
*Robert S. Joe, Councilmember*  
*Diana Mahmud, Councilmember*

*Evelyn G. Zneimer, City Clerk*  
*Gary E. Pia, City Treasurer*

COUNCIL AGENDA: May 16, 2018

TO: Honorable Mayor and City Council

VIA: Stephanie DeWolfe, City Manager

FROM: Mariam Lee Ko, Interim Finance Director  
Karen Aceves, Principal Management Analyst

SUBJECT: **Presentation Regarding Proposed Budget for Fiscal Year 2018-19**

### **Recommendation**

It is recommended that the City Council review the proposed Fiscal Year (FY) 2018-19 budget and provide feedback to staff. The final budget will be presented to City Council for adoption on June 6, 2018.

### **Commission Review and Recommendation**

The budget will be presented to the Finance Commission prior to the June 6, 2018 City Council Meeting.

### **Community Outreach**

On April 16, 2018, a randomized Community Survey was sent out via e-mail to residents. The survey included several budget questions which were used to inform the proposed budget. On May 10, 2018, the City received the results of the Community Survey highlighting budget priorities. Nearly all residents surveyed (95%) rated the quality of life in South Pasadena as excellent or good. The highest priority in the community is fixing streets and sidewalks followed by reducing traffic congestion. Residents who responded to the survey expressed they were most satisfied with the City's efforts to provide Fire protection and emergency medical services, Library services, City parks and recreation facilities, senior services, protecting the environment, and Police services.

Residents were asked to select options to reduce the budget deficit if needed. The least popular options were cutting back on street maintenance and infrastructure repairs, reducing the number of firefighters and paramedics, and reducing the number of police officers resulting in an increase in response times. The full results of the survey will be presented under separate cover.

### **Background**

Each year the City is required to adopt a budget for the operation of the City. The budget serves as the City's financial plan for the Fiscal Year beginning July 1<sup>st</sup> through June 30<sup>th</sup> and defines City priorities for the provision of services to the public.

General Fund Revenues: \$27,468,618

The General Fund (GF) anticipated revenue includes a three percent increase over last year due to sustained increases in property taxes, the City’s largest revenue source. Over the past five years, total revenue has increased at a rate of one to two percent per year on average.

The City’s top revenue sources include the following:

- Property Tax (51%),
- Utility User Tax (12%)
- Sales Tax (11%)
- User Fees (4%)

While property tax continues to rise steadily, the Utility User Tax (UUT) has declined, and sales tax and user fees have remained steady.

Because overall annual revenue increases are gradual, the City must rely more on enterprise funds, local return funds, and grants to support the increasing cost of service delivery.

General Fund Expenditures: \$27,413,142

The FY 2018-19 proposed annual budget is \$27,413,142 which represents a three percent increase in general fund expenditures. The City’s main expenditures can be attributed to the following:

- Personnel (72%)
- Operations and Maintenance (22%)

There are no proposed increases in regular full time staff (FTE) for FY 18-19. In addition, the City did not increase wages as part of the approved 2017-2019 Memorandums of Understanding with labor groups. The increase in proposed expenditures is largely due to increases in mandated pension liability, workers compensation, and health insurance costs.

Undesignated Reserve

With the adoption of the FY 2017-18 budget, the City Council set the undesignated reserve level at 25%. That standard continues to be met in the proposed FY 2018-19 budget.

Designated Reserve

There are several items proposed in the designated reserve which continue building CIP funding for prioritized projects, including renewable energy sources, stormwater, and mandated costs such as retiree benefits and legal services.

<i>Fund</i>	<i>FY 17-18 Year End Balance</i>	<i>FY 18-19 Proposed Adjustments</i>	<i>FY 18-19 Proposed Fund Balance</i>	<i>Comments</i>
Financial Sustainability	-	\$900,000	\$900,000	
Arroyo Seco Golf Course/ Bicycle and Pedestrian Trail	\$600,000	-	\$600,000	FY 17-18 expenditure - \$500,000 to complete trail project
Renewable Energy Sources	\$350,000	\$350,000	\$700,000	

Presentation Regarding Proposed Budget for Fiscal Year 2018-19

May 16, 2018

Page 3 of 5

<i>Fund</i>	<i>FY 17-18 Year End Balance</i>	<i>FY 18-19 Proposed Adjustments</i>	<i>FY 18-19 Proposed Fund Balance</i>	<i>Comments</i>
Legal Services	\$500,000	-	\$500,000	
Retiree Benefits (Pension/Health)	\$1,000,000	-	\$1,000,000	
Maintenance Yard/ Community Center	\$317,130	-	\$317,130	FY 17-18 expenditure - Comm Cntr EIR
Library Expansion	\$200,000	-	\$200,000	
Emergency Operations Center	\$195,000	-	\$195,000	FY 17-18 mid-year budget adjustment - \$205,000 for EOC remodel project
CalTrans Vacant Lot Purchases	\$391,600	-	\$391,600	FY 17-18 expenditure - \$358,400 for purchase of two Caltrans vacant properties
StormWater	\$300,000	\$300,000	\$600,000	
Tree Replacement/Mgmt	\$0	-	-	FY 17-18 expenditure - \$50,000 budget line item in LLMD acct
General Plan/MSSP	\$0	-	-	FY 17-18 expenditures for General Plan Update

**Priorities**

The City has made significant accomplishments toward community goals during the current Fiscal Year:

- Public Works Department completed maintenance and resurfacing of streets totaling \$2.3 million and implemented a Citywide Styrofoam ban ordinance;
- The Community Services Department increased the number of senior meals by 20% and began renovation of the historic Eddie Park House;
- The Finance Department began the process of creating a long range financial plan to navigate future financial challenges;
- The Police Department created a self-defense course and introduced an ordinance banning smoking on City sidewalks;
- The Fire Department graduated three Community Emergency Response Team (CERT) classes and initiated upgrade of the Emergency Operations Center to improve response to catalytic events;
- The Planning and Building Department began the General Plan update and adopted a comprehensive Cultural Heritage Ordinance;
- The Library showcased a five day “sanctuary” art exhibition and conducted a summer reading program with over 2,000 young participants;
- Management Services Department developed the first five year Capital Improvement Plan and initiated the creation of a citywide transparency and communications program.

The City also began the development of a new strategic plan and verified the appropriateness of priority goals through the community survey, including:

- Fiscal resiliency;
- Economic development to strengthen local business districts;
- Emergency preparedness and disaster recovery;
- Infrastructure and environmental programs;
- Planning for affordable housing;
- Enhanced customer service through innovation.

Based on these goals the following priorities have been included in the proposed operating budget:

- Additional General Funds for street repairs. (Additional costs will be offset by new local return revenue i.e. Measure M and SB 1 as noted in the Capital Improvement Plan);
- Completion of financial studies regarding potential revenue sources and fiscal sustainability alternatives;
- Completion of an economic development plan;
- Citywide upgrades to the 30-year old phone system as indicated in the Capital Improvement Plan;
- Study of an ordinance regulating seismic reinforcement of soft story buildings;
- Completion of an inclusionary housing ordinance to create affordable housing in compliance with State mandates;
- Completion and implementation of the Citywide transparency and communications plan;
- Completion of upgrades to the Emergency Operations Center to meet new technology and operations standards;
- Investment in solar technology and upgrades to City facilities.
- Address Municipal Separate Storm Sewer System (MS4) regulatory requirements.

### **Future Challenges**

The City faces several financial challenges in the coming years and must be fiscally conservative with the proposed budget in anticipation of these challenges. In the November 2018 General Municipal Election, the City faces the threat of the repeal of the UUT. The loss of this revenue source, currently 12% of General Fund revenue, would force significant cuts to all City programs and services. A staff report proposing specific service cuts that will be implemented if the ballot measure is successful, will be presented for City Council approval in July.

The City continues to face ongoing challenges from CalPERS and increasing retirement costs. Implications of State actions are projected to result in a deficit to the City beginning in FY 2020-2021. Staff is working with CalPERS and with independent actuarial consultants to refine the impacts in future years and to develop plans to offset the costs. A long range fiscal sustainability plan, consistent with strategic goals, will be presented to City Council later this year.

**Fiscal Impact**

General Fund revenues for FY 2018-19 are estimated at \$27.5 million. General Fund expenditures for City operations in FY 2018-19 are projected to be \$27.4 million. The total operating budget including enterprise funds, local return, special funds and grant funds is approximately \$60 million. On April 26, 2018 the Finance Commission recommended special funds be expended before using General Fund monies whenever appropriate.

**Legal Review**

The City Attorney did not review this report.

**Public Notification of Agenda Item**

The public was made aware that this item was to be considered this evening by virtue of its inclusion on the legally publicly noticed agenda, posting of the same agenda and reports on the City's website and/or notice in the *South Pasadena Review* and/or the *Pasadena Star-News*.

Attachment: Expenditure Details by Department